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Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SS-20 L-03 EB-11 IGA-02 SWF-02 AID-20

AGR-20 CIAE-00 INR-11 NSAE-00 RSC-01 NSC-07 H-03

PRS-01 DRC-01 /123 W
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P 231931Z JUL 74
FM AMEMBASSY ASUNCION
TO SECSTATE WASHES PRIORITY 3065

C O N F I D E N T I A L ASUNCION 3027

FOR DEPUTY ASSISTANT SECRETARY BOWDLER FROM AMBASSADOR

E.O. 11652: ADS:10 DECLAS 1/1/75
SUBJECT: SMALL FARMER DEVELOPMENT

1. REF: STATE 157984

1. WELCOME HELP OF EXPERT TEAM TO RESTRUCTURE ALL

FARMER CREDIT LOAN AS PROPOSED IN ASSISTANT SECRETARY KUBISCH'S CABLE. USAID DIRECTOR INFORMS ME THAT TENTATIVE COMPOSITION OF TEAM IS EXCELLENT.

2. MEANWHILE USAID ALREADY HAS BEEN EXPLORING VARIOUS AVENUES TO RECONSTRUCT ITS PROPOSAL. I UNDER-STAND FROM USAID DIRECTOR THAT BASIC PROBLEM IS TO ACHIEVE SUFFICIENT DEGREE OF CAPITALIZATIIN FOR COOPERATIVE SYSTEM DURING PERIOD OF LOAN DISBURSEMENT TO ACHIEVE SELF-SUFFICIENCY BY THE END OF THE PERIOD

IF COTTON AND TOBACCO CANNOT BE FINANCED, ALTERNATIVE CREDIT DEMANDS FOR OTHER PURPOSED WOULD HAVE TO BE FOUND, SINCE THESE TWO CROPS REPRESENT 40 PERCENT OF TOTAL CREDIT DEMAND OF SYTEM.

3. ONE POSSIBILITY, ASSUMING CONTINUING AVAILABILITY
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OF BNF'S OWN FUNDS, IS TO UNDERTAKE COMBINED BNF/AID PACKAGE

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FOR TOTAL FINANCING OF SYSTEM IN WHICH BNF PORTION (FROM BNF'S OWN RESOURCES) WOULD BE ATTRIBUTED TO CREDIT DEMAND FOR TOBACCO AND COTTON AND AID LOAN PROCEEDS ATTRIBUTED TO OTHER CROPS AND OTHER PURPOSES. OTHER PURPOSES WOULD INCLUDE PRIMARILY FINANCING OF PRODUCTION LOAND (E.G. SEWING MACHINES, ARTISANS' TOOLS) TO NONFARMER MEMBERS OF RURAL AND URBAN CREDIT UNIONS WITH AID LOAN PROCEEDS. REASON FOR THIS LATTER USAGE IS THAT REPLACEMENT OF COTTON AND TOBACCO CREDIT DEMAND BY BNF, BECAUSE OF HIGH INTEREST RATES CHARGED BY BNF, WOULD NOT CONTRIBUTE TO CAPITALIZATION OF SYSTEM, BUT WOULD COVER ONLY ITS OPERATING COSTS. INABILITY TO REPLACE VOLUME OF CREDIT DEMAND REPRESENTED BY COTTON AND TOBACCO WOULD ENTAIL MUCH LONGER PERIOD OF TIME UNTIL COOPERATIVE SYSTEM REACHED SELF-SUFFICIENCY.

4. PRIOR TO ARRIVAL OF TEAM, FOREGOING CONCEPT SHOULD BE EXPLORED ON URGENT BASIS TO DETERMINE AID REACTION TO PRINCIPLE SO THAT TEAM DURING STAY HERE CAN HELP EVALUATE FEASIBILITY. OTHER POINTS WHICH REQUIRE CLARIFICATION FOLLOW IN AIDAC SERIES.
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